

STUDENT ID NO										
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# MULTIMEDIA UNIVERSITY

## FINAL EXAMINATION

TRIMESTER 2, 2019 / 2020

### **BFN3084 – INTERNATIONAL FINANCE**

(All Sections/Groups)

7<sup>TH</sup> MARCH 2020 2.30PM – 4.30PM (2 Hours)

#### INSTRUCTIONS TO STUDENT

- This question paper consists of TWO pages (excluding cover page) with FOUR questions only.
- 2. Answer **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.
- 3. Write your answers and workings in the Answer Booklet provided.

#### **QUESTION 1 (25 MARKS)**

(a) Cetaphil Phillips, from Washington, D. C. specializes in cross-rate arbitrage. He observes the following spot rates:

EUR 1.5888/\$ AUD\$1.8566 /\$ AUD\$1.1777/EUR

- (i) Ignoring transaction costs, does Cetaphil Phillips have an arbitrage opportunity based on these quotes? (5 marks)
- (ii) What steps would he take to make an arbitrage profit, and how would he profits if he has \$3,000,000 available for this purpose? (12 marks)

(b)

·	USD equivalent			
CURRENCY	BID	ASK		
Switzerland (CHF)	0.7648	0.7652		
Euro (€)	1.4000	1.4200		

- (i) What is the BID cross-exchange rate for Swiss Francs priced in euro? (4 marks)
- (ii) What is the ASK cross-exchange rate for Swiss Francs priced in euro?

  (4 marks)

#### **QUESTION 2 (25 MARKS)**

- (a) What are the FOUR (4) benefits of foreign direct investment (FDI)? Discuss.

  (20 marks)
- (b) Explain bimetallism and what was the ultimate goal of bimetallism? (5 marks)

#### **QUESTION 3 (25 MARKS)**

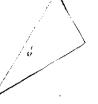
(a) Redwin Cream, an American decided to invest \$2,000,000 for six months. The six-month interest rate is 8 percent per annum in the United States and 10 percent per annum in Canada. Currently, the spot exchange rate is CAD1.30 per dollar and the six-month forward exchange rate is CAD1.31 per dollar. What is the interest rate parity and how could Redwin maximize his return?

(15 marks)

(b) Describe zero coupon bond and straight fixed-rate bond.

(10 marks)

Continued...



#### **QUESTION 4 (25 MARKS)**

Swan Grey Corporation, located in United Kingdom has translated its financial accounts into U.S. dollars. The table below presents the balance sheet in pound sterling. The historical exchange rate is \$4.00/£1.00 and the spot rate is \$3.00/£1.00. Fill up the missing entries that translate the balance sheet below. Please write the answer in your answer booklet.

	Local	Current /	Monetary /	Current
Balance Sheet	Currency	Noncurrent	Nonmonetary	Rate
Cash	£5,000		15,000	
Inventory (Current				
Value = £4000)	£10,000			
Net Fixed Assets				-
	£5,000			
				5 5 5 5
Total Assets	£20,000			
Current Liabilities				
	£3,000	9,000		
Long-Term Debt			·	
	£6,000			
Common Stock				
	£10,000			
Retained Earnings	·			(5,000)
	£ 1,000			
Cumulative Transfer				
Adjustment (CTA)				<u>.</u>
Total Liability &				
Equity	£20,000			

(25 marks)

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